

CITY OF MANCHESTER, MISSOURI

***FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2012***

CITY OF MANCHESTER, MISSOURI

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BASIC FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT



The Honorable Mayor and Members of
the Board of Aldermen
CITY OF MANCHESTER, MISSOURI

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Manchester, Missouri, as of and for the year ended December 31, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

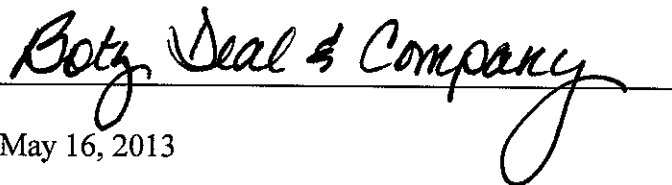
Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Manchester, Missouri, as of December 31, 2012, and the respective changes in the financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 3 through 11 and 32 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Manchester, Missouri's financial statements as a whole. The additional supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining nonmajor fund financial statements and the budgetary comparison schedules included in the supplemental information section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


May 16, 2013

**CITY OF MANCHESTER, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

The discussion and analysis of the City of Manchester's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended December 31, 2012. It should be read in conjunction with the accompanying basic financial statement.

- The City's total net position increased by \$1,675,740 in 2012. The current year increase brings the year-end net position of the City to \$(17,536,024). Of this amount \$22,418,334 is invested in capital assets, \$13,019,058 represents restricted amounts, \$(53,754,294) represents special limited obligation bonds and the remaining \$780,878 represents unrestricted amounts that can be used to meet the City's ongoing operations.
- As of December 31, 2012, the City's governmental funds reported a combined ending fund balance of \$14,783,729, an increase of \$491,125 in comparison with the year ended December 31, 2011.
- At the end of the year, unassigned fund balance for the General Fund was \$(143,273) or (4.6%) of the General Fund appropriations for the 2012 year.
- The City made total debt service payments of \$4,930,052, of which \$1,780,000 represents principal.
- The general fund reported a net decrease in fund balance of \$677,929.

REPORT LAYOUT

The report consists of management's discussion and analysis (MD&A), government-wide statements, fund financial statements, notes to the financial statements, and required supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as police, public works, parks and recreation, community development, legal and courts and general government administration. The City currently does not have any business-type activities. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City.

**CITY OF MANCHESTER, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

Basic Financial Statements

- The Statement of Net Position focuses on resources available for future operation. In simple terms, this statement presents a snap-shot view of the assets the community owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. The Statement of Revenues, Expenses, and Change in Net Position focuses on gross and net costs of City programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on major governmental funds. Governmental fund statements follow the more traditional presentation of financial statements. The City's major governmental funds are presented in their own column and the remaining funds are combined into a column title "Other Non-major Funds". Budgetary comparisons for the General Fund and major special revenue funds are presented as required supplementary information. A budgetary comparison is presented for the Capital Projects Fund, Debt Service Fund, TIF Fund, Homecoming Fund, and the Parks and Storm Water Projects Fund.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

THE CITY AS A WHOLE

Government-wide Financial Analysis

The City's combined net position was (\$17,536,024) as of December 31, 2012. This analysis focuses on the net assets (table 1), and changes in general revenues and significant expenses (table 2) of the City's governmental activities.

The City's net position consists of its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding and unrestricted balances. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF MANCHESTER, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

Table 1

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Assets:			
Current and other assets	\$ 15,651,536	\$ 15,785,837	\$ (134,301)
Capital assets	<u>25,603,334</u>	<u>25,103,355</u>	<u>499,979</u>
Total assets	<u>41,254,870</u>	<u>40,889,192</u>	<u>365,678</u>
Liabilities:			
Current and other liabilities	1,366,041	1,021,077	344,964
Noncurrent liabilities	<u>57,424,853</u>	<u>59,079,879</u>	<u>(1,655,026)</u>
Total liabilities	<u>58,790,894</u>	<u>60,100,956</u>	<u>(1,310,062)</u>
Net position:			
Net invested in capital assets	22,418,334	21,368,355	1,049,979
Restricted	13,019,058	11,825,850	1,193,208
Unrestricted	<u>(52,973,416)</u>	<u>(52,405,969)</u>	<u>(567,447)</u>
Total net position	<u>\$ (17,536,024)</u>	<u>\$ (19,211,764)</u>	<u>\$ 1,675,740</u>

Net position may serve over time as an indicator of the City's financial position. The City's net position increased \$1,675,740 to (\$17,536,024) as of December 31, 2012. This increase is due primarily to a reduction in outstanding debt in 2012. \$1,230,000 of tax increment financing (TIF) bonds were redeemed in 2012 and paid out of TIF revenue. The TIF debt is not a general obligation of the City, and the City does not own the property. The General Obligation Bonds were refinanced with a net reduction \$550,000 to our long-term obligation.

A portion of the City's net position reflects its net investment in capital assets, and unrestricted balances, which total \$22,418,334 and \$21,368,355 in 2012 and 2011, respectively. The City uses capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Unrestricted amounts apart from the TIF obligation are, as noted above \$780,878. Unrestricted amounts may be used to meet the City's ongoing obligations to citizens and creditors.

Restricted amounts totaled \$13,019,058 at December 31, 2012. Restricted amounts are subject to external restrictions on how they may be used. Of restricted, \$1,245,142 is restricted for parks projects, \$9,988,792 is restricted TIF fund, \$698,503 is restricted for debt service, \$1 is restricted for parks and recreation, \$576,818 is restricted for sewer repairs, and \$509,802 is restricted for capital projects.

**CITY OF MANCHESTER, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

Table 2

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Revenues:			
Program revenues:			
Charges for service	\$ 1,111,627	\$ 931,979	\$ 179,648
Capital grants and contributions	208,479	842,440	(633,961)
General revenues:			
Taxes	15,140,368	13,635,550	1,504,818
Investment return	151,523	(50,964)	202,287
Miscellaneous	234,659	235,415	(756)
Total revenues	<u>16,846,656</u>	<u>15,594,420</u>	<u>1,252,236</u>
Expenses:			
General government	1,410,695	1,258,874	151,821
Police department	3,460,970	3,464,808	(3,838)
Public works	3,535,613	3,572,618	(37,005)
Community development	253,670	250,119	3,551
Aquatic center	500,993	476,923	24,070
Recreation	837,289	811,009	26,280
Legal and court	348,497	274,050	74,447
Interest and fiscal charges	3,750,063	2,709,322	1,040,741
	<u>14,097,790</u>	<u>12,817,723</u>	<u>1,280,067</u>
Increase (decrease) in net position	2,748,866	2,776,697	(27,831)
Net position, beginning of year	(19,211,764)	(21,988,461)	2,776,697
Prior period adjustment	(1,073,126)	-	(1,073,126)
Net position, end of year	<u>\$ (17,536,024)</u>	<u>\$ (19,211,764)</u>	<u>\$ 1,675,740</u>

The increase in total revenues of \$1,252,236 represents an increase of 8.0%. This increase in revenues is slightly higher than the national growth of 4.2% at the end of 2012. The new shopping area in the City has boosted the City's sales tax revenue as well as provide for the repayment of the TIF Bonds. The remaining sales tax producers in the City continue to recover from stagnant economy which had produced lower than expected sales tax revenue around the City. Since the City is dependent on varying revenue sources, Manchester is susceptible to income fluctuations and must continue to closely monitor economic indicators.

**CITY OF MANCHESTER, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

In 2012 sales tax increased \$1,786,695, while utility tax decreased \$46,667 and property tax decreased \$209,515 from 2011. Investment income increased \$202,287 due to a recovery in the fair market value of funds invested by the City for the future debt service of the TIF Bonds. Police fines and court costs increased \$148,102 in 2012 from the amount collected in 2011.

The City's expenses increased \$1,280,067 over 2011. This increase is primarily due to reclassification of TIF expenses that had been reported as an offset to revenue in prior periods.

Governmental Funds

The following table presents the amount of revenues from various sources on the modified accrual basis of accounting in the governmental funds.

Table 3

	Fiscal Year Ending 2012	Fiscal Year Ending 2011	Increase (Decrease)	Percentage Change	
Taxes	\$ 15,104,614	\$ 13,654,197	\$ 1,450,417	10.6	%
Licenses and permits	233,848	212,745	21,103	10.0	
Fines and forfeitures	460,612	312,510	148,102	47.3	
Investment income	151,523	(50,964)	202,487	397.3	
Charges for service	417,167	406,724	10,446	2.6	
Miscellaneous	459,283	1,112,649	(653,366)	(58.7)	
Total revenues	<u>\$ 16,827,047</u>	<u>\$ 15,647,861</u>	<u>\$ 1,179,186</u>		

Total revenues in 2012 exceed 2011 by \$1,179,186. This increase in revenue is a combination of several factors. Three major types of taxes are imposed by the City. Those taxes are: sales tax, utility use tax, and property tax. Sales tax increases are a result of the increase in sales in the shopping center in the TIF district. Increased sales taxes were directed to the payment of the TIF bonds and to the City's general revenues. The new properties in the TIF district generated property taxes that are also directed toward the payment of the bonds.

Intergovernmental revenues are made up of taxes imposed and collected by other taxing jurisdictions, which are shared on a proportional basis with other entities such as the City. These taxes include gasoline, vehicle sales, cigarette, and vehicle fees. These sources of revenue decreased by approximately \$66,000 from 2011 to 2012.

**CITY OF MANCHESTER, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

One of the City's most unpredictable revenue streams is in the fines and forfeitures category. The City of Manchester's Police Department participates in a regional Drug Task Force. As a member of this Task Force, the City periodically receives a prorata share of asset forfeiture money which can only be spent to support police related activities. Asset forfeiture payments to the City only occur when major drug cases are settled and the court orders the defendant's assets seized. In 2012, the City received approximately \$21,500 from asset forfeitures. In 2012 the city experienced an increase of approximately \$148,000 from the City's fines and court costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2012, the City had \$32,137,252 invested in a broad range of capital assets, including police and public works equipment, buildings, park facilities, roads, and water and sewer lines. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$1,682,449 or 5.5% over the prior year.

Table 4

	2012	2011
Land	\$ 1,580,963	\$ 1,580,963
Buildings and improvements	17,894,498	17,220,978
Machinery and equipment	1,486,013	1,440,583
Vehicles	1,649,378	1,493,561
Infrastructure	8,812,349	7,865,756
Construction in progress	714,051	852,962
	\$ <u>32,137,252</u>	\$ <u>30,454,803</u>

The most significant addition to capital assets this fiscal year was the addition of infrastructure. In 2012, approximately \$950,000 was added for street and sidewalk replacement. Improvements to the aquatic center added \$666,000. Construction in progress is for storm channel improvements to be completed at various times in the future. Additional information on the City's capital assets is presented in the notes to the financial statements.

DEBT

At year-end, the City had \$57,380,000 in outstanding debt compared to \$59,160,000 at the end of the prior fiscal year, a decrease of \$1,780,000.

**CITY OF MANCHESTER, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

Table 5

	<u>2012</u>	<u>2011</u>
General Obligation Bonds	\$ 3,185,000	\$ 3,735,000
TIF Bonds	<u>54,195,000</u>	<u>55,425,000</u>
Total	\$ <u>57,380,000</u>	\$ <u>59,160,000</u>

During the fiscal year, the City made principal payments totaling \$1,780,000 during the year. The City also issued general obligation refunding bonds in 2012. More detailed information on the City's long-term liabilities is presented in the notes to the financial statements.

THE CITY'S FUNDS

At the close of the City's fiscal year on December 31, 2012, the governmental funds of the City reported a combined fund balance of \$14,783,729. This ending balance includes a decrease in fund balance of \$677,929 in the City's General Fund. The excess of expenditures over revenues in the General Fund of \$403,601 was reduced further by transfers to other funds in the amount of \$274,328.

The fund balance increased by \$721,575 in the Parks and Storm Water Projects Fund. During 2012 the City used assets available in this fund to pay capital outlay expenditures.

The fund balance in the Capital Projects Fund increased by \$343,014. During 2012, the City used assets available in this fund to pay capital outlay expenditures.

The fund balance decreased by \$329,760, in the Debt Service fund.

The fund balance in the TIF Fund increased by \$447,834 and included a transfer of \$274,328 from the General Fund. The increase was due primarily to sales tax proceeds which are held as investments to be used for future payment of bond obligations.

General Fund Budgetary Highlights

For 2012, actual revenues in the General Fund were \$8,172,799 compared to the final budget amount of \$8,748,500. There were several categories with variances of note. Sales tax revenue was budgeted with an increase for 2012, however the increase in sales tax revenue from 2011 was not as high as expected. The Fines and Court Costs revenue budget had been established to reflect the consistently flat revenue. In 2012 Fines and Court Cost revenue actually increased.

**CITY OF MANCHESTER, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

For 2012, actual expenditures were \$8,576,400 compared to the final budget amount of \$9,305,956. When the 2012 budget was prepared, late in 2011, there was an expectation that the police staffing level would increase. The Police Department has spent 2012 bringing staff to an appropriate level. Expenditures for the Public Works were also less than anticipated due to a mild winter and required less in time and material for street maintenance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In 2005 the City established a fund to account for the pre-development costs associated with the consideration of redeveloping a section of the City. In order for the area to be redeveloped, it was recognized that a developer would require Tax Increment Financing. As of 2010, that development is completed, Bonds have been issued to finance the cost of construction and the shopping area is active and generating revenue. The TIF Fund insures that the City captures its costs associated with this development and that TIF revenues are collected and transferred to the Bond Trustee.

In 2001, the citizens of Manchester approved the imposition of a Parks & Storm Water Projects sales tax. Anticipating increase sales tax revenue with the opening of the new shopping center, the City projected a 5% increase in revenues for the 2012 budget over the anticipated 2011 year performance at budget time.

In preparing the General Fund's operating budgets, department heads were directed to contain costs for 2012 to an increase based on the expected increases in payroll and insurance as well as specific needs for operation. The departmental budget requests were submitted with the discretionary spending budget being requested with an overall 1.85% increase over the 2011 authorized level.

The City's 2013 anticipated revenue is budgeted at \$17,999,000; the appropriated expenditure level is \$17,572,141, which will result in an excess of current year revenues over expenditures of \$426,859. This excess will contribute to the unreserved fund balance expected to be approximately \$509,000. The City has established a minimum designated contingency policy of 20% of the General Fund appropriation, which the 2012 budget continues to exceed.

**CITY OF MANCHESTER, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact:

David Tuberty
Director of Finance
City of Manchester, Missouri
14318 Manchester Road
Manchester Missouri 63011

CITY OF MANCHESTER, MISSOURI

STATEMENT OF NET POSITION

DECEMBER 31, 2012

	Governmental Activities
ASSETS	
Cash and investments	\$ 4,204,134
Taxes receivable:	
Property	994,815
Other	2,192,240
Prepaid items	178,232
Interest receivable	395
Restricted assets:	
Cash and investments	8,081,720
Capital assets - net:	
Nondepreciable	2,295,014
Depreciable	23,308,320
TOTAL ASSETS	41,254,870
LIABILITIES	
Accounts payable	229,647
Due to others	19,745
Accrued wages	96,294
Accrued compensated absences	77,966
Escrow payable	300,090
Accrued interest payable	603,339
Court bonds payable	32,598
Accrued and withheld items	6,362
Noncurrent liabilities:	
Due in one year:	
General Obligation Bonds	495,000
Due in more than one year:	
General Obligation Bonds	2,690,000
Tax Increment Revenue Bonds	53,754,294
Postretirement benefits	485,559
TOTAL LIABILITIES	58,790,894
NET POSITION	
Net investment in capital assets	22,418,334
Restricted:	
Parks and storm water	1,245,142
Capital projects	509,802
Debt service	698,503
TIF	9,988,792
Parks and recreation	1
Sewer repairs	576,818
Unrestricted	(52,973,416)
TOTAL NET POSITION	\$ (17,536,024)

The accompanying notes are an integral part of these financial statements.

CITY OF MANCHESTER, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Change in Net Position
		Charges for Service	Capital Grants and Contributions	Governmental Activities
Governmental Activities				
General government	\$ 1,410,695	\$ 232,459	\$ -	\$ (1,178,236)
Police department	3,460,970	460,612	-	(3,000,358)
Public works	3,535,613	21,039	208,479	(3,306,095)
Community development	253,670	-	-	(253,670)
Aquatic center	500,993	334,530	-	(166,463)
Recreation	837,289	62,987	-	(774,302)
Legal and court	348,497	-	-	(348,497)
Interest and fiscal charges	3,750,063	-	-	(3,750,063)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$14,097,790</u>	<u>\$ 1,111,627</u>	<u>\$ 208,479</u>	<u>(12,777,684)</u>
Taxes:				
Sales				10,804,917
Utility				1,289,144
Property				2,092,373
Franchise				255,673
Other				698,261
Investment return				151,523
Other miscellaneous revenue				234,659
TOTAL GENERAL REVENUES				<u>15,526,550</u>
CHANGE IN NET POSITION				<u>2,748,866</u>
NET POSITION - BEGINNING OF YEAR AS PREVIOUSLY STATED				(19,211,764)
Prior Period Adjustment				(19,745)
Change In Accounting Principle				<u>(1,053,381)</u>
NET POSITION - BEGINNING OF YEAR AS RESTATED				<u>(20,284,890)</u>
NET POSITION - END OF YEAR				<u>\$ (17,536,024)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MANCHESTER, MISSOURI
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General Fund	Parks and Storm Water Projects Fund	Capital Projects Fund	Debt Service Fund	TIF Fund	Other Non-major Funds	Total
ASSETS AND OTHER DEBITS							
Cash and investments	\$ 1,053,469	\$1,022,978	\$ 326,860	\$ 563,267	\$ 653,766	\$ 583,794	\$ 4,204,134
Taxes receivable:							
Property	181,452	-	-	135,236	678,127	-	994,815
Other	1,127,705	240,913	212,546	-	575,179	35,897	2,192,240
Interest receivable	395	-	-	-	-	-	395
Prepaid items	178,232	-	-	-	-	-	178,232
Due (to) from other funds	42,872	-	-	-	-	(42,872)	-
Restricted assets:							
Cash and investments	-	-	-	-	8,081,720	-	8,081,720
TOTAL ASSETS							
AND OTHER DEBITS	<u>\$ 2,584,125</u>	<u>\$1,263,891</u>	<u>\$ 539,406</u>	<u>\$ 698,503</u>	<u>\$ 9,988,792</u>	<u>\$ 576,819</u>	<u>\$ 15,651,536</u>
LIABILITIES							
Accounts payable	\$ 201,039	\$ 18,749	\$ 9,859	\$ -	\$ -	\$ -	\$ 229,647
Due to others	-	-	19,745	-	-	-	19,745
Accrued wages	96,294	-	-	-	-	-	96,294
Accrued compensated absences	77,966	-	-	-	-	-	77,966
Escrow payable	300,090	-	-	-	-	-	300,090
Court bonds payable	32,598	-	-	-	-	-	32,598
Accrued and withheld items	6,362	-	-	-	-	-	6,362
TOTAL LIABILITIES	<u>714,349</u>	<u>18,749</u>	<u>29,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>762,702</u>
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - property taxes	40,224	-	-	64,881	-	-	105,105
FUND BALANCES:							
Fund balances:							
Non-spendable	178,232	-	-	-	-	-	178,232
Restricted:							
Capital expenditures	-	-	509,802	-	-	-	509,802
Parks and storm water projects	-	1,245,142	-	-	-	-	1,245,142
TIF	-	-	-	-	9,988,792	-	9,988,792
Parks and recreation	-	-	-	-	-	1	1
Sewer improvements	-	-	-	-	-	576,818	576,818
Debt service	-	-	-	633,622	-	-	633,622
Committed:							
Contingency	1,794,593	-	-	-	-	-	1,794,593
Unassigned:							
General fund	(143,273)	-	-	-	-	-	(143,273)
TOTAL FUND BALANCES	<u>1,829,552</u>	<u>1,245,142</u>	<u>509,802</u>	<u>633,622</u>	<u>9,988,792</u>	<u>576,819</u>	<u>14,783,729</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 2,584,125</u>	<u>\$1,263,891</u>	<u>\$ 539,406</u>	<u>\$ 698,503</u>	<u>\$ 9,988,792</u>	<u>\$ 576,819</u>	<u>\$ 15,651,536</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MANCHESTER, MISSOURI
RECONCILIATION OF THE STATEMENT OF NET POSITION
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
AS OF DECEMBER 31, 2012

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance per balance sheet	\$ 14,783,729
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	25,603,334
Receivables not collected in the current period are not available to pay current expenditures and, therefore, are deferred in the funds.	105,105
Interest payable recorded in the statement of net position does not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(603,339)
Long-term liabilities, including bonds payable and postretirement benefits, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(57,424,853)</u>
Net position of governmental activities	<u><u>\$ (17,536,024)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MANCHESTER, MISSOURI

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Parks and Storm Water Projects Fund	Capital Projects Fund	Debt Service Fund	TIF Fund	Other Non-major Funds	Total
REVENUES							
Taxes	\$6,831,499	\$1,420,732	\$ 1,215,392	\$ 276,106	\$ 5,194,094	\$ 166,791	\$ 15,104,614
Licenses and permits	233,848	-	-	-	-	-	233,848
Fines and forfeitures	460,612	-	-	-	-	-	460,612
Investment income	42,136	-	-	187	109,200	-	151,523
Charges for service	397,517	-	-	-	-	19,650	417,167
Miscellaneous	207,187	-	224,601	-	21	27,474	459,283
TOTAL REVENUES	8,172,799	1,420,732	1,439,993	276,293	5,303,315	213,915	16,827,047
EXPENDITURES							
Current:							
General government	1,083,321	-	-	-	307,044	-	1,390,365
Police department	3,136,366	-	-	-	-	-	3,136,366
Public works	2,743,868	-	-	-	-	40,209	2,784,077
Community development	251,639	-	-	-	-	-	251,639
Aquatic center	343,207	-	-	-	-	-	343,207
Recreation	641,038	-	-	-	-	33,620	674,658
Legal department and municipal court	344,378	-	-	-	-	-	344,378
Capital outlay	32,583	699,157	1,077,233	-	-	153,696	1,962,669
Debt service:							
Bond issue costs	-	-	-	64,173	-	-	64,173
Principal, interest and fiscal charges	-	-	-	107,211	4,822,765	-	4,929,976
TOTAL EXPENDITURES	8,576,400	699,157	1,077,233	171,384	5,129,809	227,525	15,881,508
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(403,601)	721,575	362,760	104,909	173,506	(13,610)	945,539
OTHER FINANCING SOURCES (USES)							
Proceeds from bond issuance	-	-	-	3,185,000	-	-	3,185,000
Premium on bonds issued	-	-	-	115,331	-	-	115,331
Payment to refunded bond escrow agent	-	-	-	(3,735,000)	-	-	(3,735,000)
Operating transfer in (out)	(274,328)	-	-	-	274,328	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(274,328)	-	-	(434,669)	274,328	-	(434,669)
CHANGE IN FUND BALANCE	(677,929)	721,575	362,760	(329,760)	447,834	(13,610)	510,870
FUND BALANCES - BEGINNING OF YEAR AS PREVIOUSLY STATED	2,507,481	523,567	166,787	963,382	9,540,958	590,429	14,292,604
Prior period adjustment	-	-	(19,745)	-	-	-	(19,745)
FUND BALANCES - BEGINNING OF YEAR AS RESTATED	2,507,481	523,567	147,042	963,382	9,540,958	590,429	14,272,859
FUND BALANCES - END OF YEAR	\$1,829,552	\$1,245,142	\$ 509,802	\$ 633,622	\$ 9,988,792	\$ 576,819	\$ 14,783,729

The accompanying notes are an integral part of these financial statements.

CITY OF MANCHESTER, MISSOURI
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL
 FUNDS TO THE STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2012**

Amounts reported for governmental activities in the statement of revenues, expenses and changes in net position are different because:

Change in fund balance-total governmental funds	\$ 510,870
Revenues that do not provide current financial resources are not included in the fund financial statements.	35,754
The acquisition of capital assets requires the use of current financial resources but has no effect on net assets.	1,738,786
The cost of capital assets is allocated over their estimated useful lives and are reported as depreciation expense in the statement of revenues, expenses and changes in net position.	(1,223,638)
In the statement of revenues, expenses and changes in net position, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sales increase financial resources.	(15,169)
The increase in interest payable and the amortization of bond premium/ discount do not require the use of current financial resources and, therefore, are not reported as an expenditure in governmental funds.	14,162
Transactions related to the defeasance of bonds affect current financial resources in the governmental funds, however it has no affect on the statement of revenues, expenses and changes in net position	3,735,000
Issuance of debt is reported as other financing sources in the fund statements and reported as a liability in the statement of net position.	(3,300,331)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,230,000
Increase in accumulated post retirement benefits are recorded when earned in the statement of revenues, expense and changes in net position.	<u>23,432</u>
Change in net position of governmental activities	<u><u>\$ 2,748,866</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MANCHESTER, MISSOURI
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Manchester, Missouri (the City) was incorporated as a city within St. Louis County, Missouri on August 17, 1959. The residents voted to approve the Village of Manchester becoming a fourth class city as provided by Missouri state statutes, and established a Mayor/City Administrator/Board of Alderman form of government. The City's major operations include police protection, street maintenance and improvements, park and recreation, community development and general administrative services. The basic financial statements have been prepared in conformity with generally accepted accounting principles as applied to governmental agencies. The significant accounting policies applied by the City in the preparation of the accompanying financial statements are summarized below:

A. REPORTING ENTITY

The City applies the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity* (GASB 14), to determine which governmental organizations should be included in the reporting entity. The inclusion or exclusion of component units is based on the elected officials accountability to their constituents. The financial reporting entity follows the same accountability. In addition, the financial statements of the reporting entity should allow the user to distinguish between the primary government (including its blended component units, which are, in substance, part of the primary government) and discretely presented component units. Criteria for inclusion of an entity into the primary governmental unit (in blended or discrete presentation) includes, but is not limited to, legal standing, fiscal dependency, imposition of will and the primary recipient of services. The City presently has no component units included within its reporting entity.

B. BASIC FINANCIAL STATEMENTS

Basic financial statements consist of the following:

- Government-wide financial statements
- Fund financial statements, and
- Notes to the basic financial statements.

The government-wide financial statements consist of the statement of net position and the statement of revenues, expenses, changes in net position and report information on all of the activities of the Primary Government. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges that would distort direct costs and program revenues reported for the various functions concerned.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

B. **BASIC FINANCIAL STATEMENTS - continued**

The statement of revenues, expenses and changes in net position demonstrates the degree to which the direct and indirect expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Indirect expenses are allocated based on the annual cost allocation plan. Program revenue includes: charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund based financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The major governmental funds are the General Fund, the Parks and Storm Water Projects Fund, the Capital Projects Fund, the Debt Service Fund, and the TIF Fund. GASB No. 34 sets forth minimum criteria (percentage of assets, deferred outflows, liabilities, deferred inflows, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

C. **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues available if they are collected within 60 days after year-end.

Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due.

For the governmental funds financial statements, the City considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, sales taxes, franchise taxes, licenses, interest, special assessments, charges for services, and other miscellaneous revenue are considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**
- C. **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION - continued**

The City reports the following major governmental funds:

The General Fund - The City's primary operating fund, which accounts for all the financial resources and the legally authorized activities of the City except those required to be accounted for in other specialized funds.

The Parks and Storm Water Projects Fund - The City uses this fund to account for sales tax revenue designated for parks and storm water projects.

The Capital Projects Fund - The City uses this fund to account for sales tax revenue and proceeds from the issuance of debt designated for capital improvements.

The Debt Service Fund - The City uses this fund to account for the resources accumulated and payments made for the principal and interest on long-term general obligation debt of governmental funds.

The TIF Fund - The City uses this fund to account for the activity from the Tax Increment Financing Commission for the Manchester Highlands.

The other governmental funds of the City are considered nonmajor. They are special revenue funds, which account for specific revenue sources that are legally restricted to expenditures for specific purposes.

- D. **CAPITAL ASSETS**

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets (e.g., roads, sidewalks, traffic lights, street lights, sewer lines and similar items), are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$2,000 or more and an estimated useful life in excess of one year. Infrastructure assets with an initial cost of \$50,000 or more are also capitalized and depreciated. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

D. **CAPITAL ASSETS - continued**

Capital assets of the City are depreciated using a straight-line method over the following estimated useful lives:

<u>Major Group</u>	<u>Life</u>
Buildings and improvements	5 - 40 years
Machinery and equipment	5 - 20 years
Vehicles	5 years
Infrastructure	10 - 50 years

The government-wide financial statements do not reflect those infrastructure assets completed prior to January 1, 2004. From that point forward, new infrastructure is added to the records, while the retroactive historical value of the City's infrastructure assets has not been added.

E. **ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenditures during the reporting period. Actual results could vary from the estimates that management uses.

F. **RESTRICTED CASH AND INVESTMENTS**

Certain cash and investments are restricted for the construction or purchase of assets and the repayment of special assessment bonds.

G. **INTERFUND TRANSACTIONS**

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

H. COMPENSATED ABSENCES

The policy for vacation pay allows employees to take time off with pay. The policy allows employees to carry forward up to one-half of the days earned in that particular year. Any days carried forward must be used in the following year. Since all days carried forward must be used in the following year, it is reflected as a current liability. Sick leave is accumulated based upon hours worked and is available only to provide compensation during periods of illness or injury. Also, the City instituted a Catastrophic Leave Policy during the year ended December 31, 2008, which provides employees the opportunity to donate sick leave, vacation and/or compensatory time so that other employees may remain in paid status, and thus partially reduce the financial impact of a serious illness or injury. No portion of sick or catastrophic leave is payable to the employee upon termination of employment. Therefore, no liability for sick or catastrophic leave has been accrued by the City.

I. LONG-TERM LIABILITIES

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Initial-issue bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are included as an expense. Amortization of bond premiums or discounts and deferred amounts on refunding are included in interest expense.

Also recorded in long-term liabilities is the City's severance package liability. The City pays to each employee with 20 years of service upon retirement an amount equal to three months salary. The City records in long-term liabilities an amount equal to the estimated liability at year end based on the length of service of each employee. The change in this liability is recorded in the government-wide statements to match the expense of providing this benefit to the period it is earned by the employee.

J. NET POSITION AND FUND EQUITY

In government-wide financial statements net assets are reported in three categories: net investment in capital assets; restricted; and unrestricted. Net investment in capital assets represents capital assets less accumulated depreciation less outstanding principal on related debt. Net investment in capital assets does not include the unspent proceeds of capital debt. Restricted net position represents amounts restricted by parties outside of the City (such as creditors, grantors, contributors, laws and regulations of other governments) and includes unspent proceeds of bonds issued to acquire or construct capital assets. All remaining net position is considered unrestricted.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

J. **NET ASSETS AND FUND EQUITY - continued**

When both restricted and unrestricted sources are available for use, it is the City's policy to use restricted first, then unrestricted resources as they are needed. The government-wide statement of net position reports a restricted portion of \$13,019,058, which is restricted by enabling legislation.

Fund Balance Classification - The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable - Resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.

Restricted - Resources with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed - Resources which are subject to limitations the government imposes upon itself passing a resolution, and that remain binding unless removed in the same manner.

Assigned - Resources neither restricted nor committed for which a government has a stated intended use as established by the Board of Directors or an official to which the Board of Directors has delegated the authority to assign amounts for specific purposes.

Unassigned - Resources which cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

The City would typically use Restricted fund balances first, followed by Committed resources and Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first.

K. **INVESTMENTS**

The City pools the cash of all funds, except for monies deposited with fiscal agents in accordance with related bond indentures. The cash and investments balance in each fund represents that fund's equity share of the City's cash and investment pool. The City's investments are carried at fair value. Interest income earned on pooled cash and investments is allocated to the various funds. Interest income on restricted cash and investments is credited directly to the related fund.

The City is authorized to invest funds not immediately needed for the purposes to which the funds are applicable, in obligations of the United States Treasury, United States Government Agencies, Repurchase Agreements, Certificates of Deposit, Banker's Acceptance and Commercial Paper.

2. BUDGETS AND BUDGETARY ACCOUNTING

The Board of Alderman adopts an annual budget on the modified accrual basis of accounting for its general, debt service, capital projects and special revenue funds. The procedures outlined below are followed in establishing the budgetary data reflected in the general purpose financial statements:

1. The Director of Finance, with the assistance of the department heads, prepares a budget of estimated revenues and expenditures for the forthcoming year and delivers the budget to the City Administrator.
2. The City Administrator reviews the proposed expenditures with the Director of Finance and the department heads and, after necessary revisions have been made, submits the budget to the Mayor and Board of Aldermen in September of each year.
3. The Board of Alderman will then hold budget work sessions with the City Administrator and staff to make final revisions to the proposed budget.
4. A 15-day notice is given by publication announcing a public hearing on the proposed budget in a newspaper with general circulation in the City and a public hearing and introduction of the bill for the adoption of the annual budget is held at the first Aldermanic meeting in the month of December.
5. The budget is legally enacted by ordinance prior to January 1 of the year to which it applies.
6. The City Administrator is authorized to transfer within a fund any unexpended balances. The Board of Aldermen must approve all fund transfers.
7. The Board of Aldermen may make supplemental appropriations for revenues in excess of original budget estimates or reduce appropriations should revenues be insufficient to meet the amount appropriated.
8. At the end of each budget period, all appropriated balances lapse and may be reappropriated in the next budget period.

The legal level of budgetary control for the City is at the fund level.

3. CASH AND INVESTMENTS

Cash - At December 31, 2012, the carrying amount of the City's deposits was \$2,381,166 and the bank balances totaled \$2,625,994. All deposits were covered by the Federal Deposit Insurance Corporation (FDIC), the Securities Insurance Protection Corporation (SIPC), or pledged securities.

Credit Risk - The City has no formal policy regarding credit risk. In general, the City invests only in instruments with a minimum AA rating.

3. CASH AND INVESTMENTS - continued

Interest Rate Risk - The City has no formal policy in regards to interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City limits its exposure to investments with maturities greater than one year. The following table shows the distribution of the City's investments by maturity:

Investment Type	Fair Value	Maturity			Rating
		0-3 Years	3-6 Years	6+ years	
U.S. Agency Securities	\$ 4,258,007	\$ 200,385	\$ 761,485	3,296,137	AA

Concentration of Credit Risk - The City places no limit on the amount that the City may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount	Percent Of Portfolio
GNMA	Federal agency securities	\$ 2,683,216	63%
FNMA	Federal agency securities	1,188,872	28
FHLMC	Federal agency securities	308,016	7

Custodial Credit Risk - For deposits and investments, the custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. It is the City's policy that all deposits and investments be insured, covered by collateral or be investments backed by the full faith and credit of the United States Government. Investments of the City are either insured, collateralized or invested in securities of the United States or its agencies

4. PROPERTY TAX

The City's property tax is levied each year on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Taxes are levied on September 1 and payable by December 31. A lien is placed on the property on January 1 and is then subject to interest and penalties. The assessed value at January 1, 2012, upon which the 2012 levy was based for real, personal and public utility property, was \$352,171,210. The City's tax rate was levied at \$.045 (real estate), \$.05 (personal property) and \$.074 per \$100 of assessed valuation for the General Fund and the Debt Service Fund, respectively.

5. **INTERFUND TRANSACTIONS**

The following transfers were made during the fiscal year ending December 31, 2012:

	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
General Fund	\$ -	\$ 274,328
TIF Fund	274,328	-

The City transferred funds from the General Fund to the TIF Fund to cover expenditures in those funds that exceed funds available.

6. **INTERFUND RECEIVABLES AND PAYABLES**

Due to/from other funds at December 31, 2012 are as follows:

	<u>DUE FROM</u>	<u>DUE TO</u>
General Fund	\$ 42,872	\$ -
Non-major fund:		
HRC Fund	-	42,872

The General Fund provides funds to the HRC Fund until taxes or other revenues are collected to cover expenditures.

7. CAPITAL ASSETS

Capital asset activity for the primary government for the year ended December 31, 2012 is as follows:

	BALANCE BEGINNING OF YEAR	ADDITIONS	DELETIONS	BALANCE, END OF YEAR
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,580,963	\$ -	\$ -	\$ 1,580,963
Construction in process	852,962	900,239	(1,039,150)	714,051
Total capital assets, not being depreciated	2,433,925	900,239	(1,039,150)	2,295,014
Capital assets, being depreciated:				
Buildings and improvements	17,220,978	673,520	-	17,894,498
Machinery and equipment	1,440,583	76,589	(31,159)	1,486,013
Infrastructure	7,865,756	946,593	-	8,812,349
Vehicles	1,493,561	180,995	(25,178)	1,649,378
Total capital assets, being depreciated	28,020,878	1,877,697	(56,337)	29,842,238
Less accumulated depreciation for:				
Buildings and improvements	(2,835,791)	(518,467)	-	(3,354,258)
Machinery and equipment	(755,611)	(128,402)	21,026	(862,987)
Infrastructure	(739,345)	(416,956)	-	(1,156,301)
Vehicles	(1,020,701)	(159,813)	20,142	(1,160,372)
Total accumulated depreciation	(5,351,448)	(1,223,638)	41,168	(6,533,918)
Total capital assets, being depreciated, net	22,669,430	654,059	(15,169)	23,308,320
Total governmental activities	\$ 25,103,355	\$ 1,554,298	\$ (1,054,319)	\$ 25,603,334

Depreciation expense was charged to functions/programs of the Primary Government as follows:

Governmental activities:	
General government	\$ 44,465
Police Department	334,391
Aquatic center	157,786
Recreation	129,714
Public works	547,598
HRC	6,056
Legal and court	3,628
Total depreciation expense governmental activities	\$ 1,223,638

8. LONG-TERM DEBT

General Obligation Bonds - The City issues general obligation bonds for the purpose of acquiring land and constructing, furnishing and equipping a new police station, including public meeting space therein. Funds from a dedicated property tax will be accumulated in the Debt Service Fund to make future principal and interest payments. The original amount of general obligation bonds issued in prior years was \$6,500,000. During the year, general obligation bonds of \$3,185,000 were issued to refund the outstanding balance. The refunding bonds bear interest at 2.0% and mature March 2018. Balance outstanding as of December 31, 2012 is as follows:

General Obligation Refunding Bonds	\$ 3,185,000
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Special Assessment Bonds - The bonds were issued in March 2010 for the Highway 141/Manchester Road Project. The bonds are special, limited obligations of the City, payable solely from the incremental sales and property taxes generated by the development along with the revenues pledged by the Manchester Highlands Transportation Development District. The annual debt service payments are contingent upon the revenues collected. The bonds bear interest at 6.0% on balances due November 1, 2025 and 6.875% on balances due November 1, 2039. The obligations of the City and the District to transfer payments for the repayment of the bonds expires in accordance with State statute whether or not the principal and interest thereon have been paid in full. These bonds are only required to make principal payments when excess funds are available after the payment of interest. Balance outstanding as of December 31, 2012 is as follows:

Special Assessment Bonds	\$ 54,195,000
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The annual debt service payments for long-term debt with scheduled payments are as follows:

YEAR	General Obligation Bonds		TOTAL
	PRINCIPAL	INTEREST	
2013	\$ 495,000	\$ 58,750	\$ 553,750
2014	510,000	48,700	558,700
2015	520,000	38,400	558,400
2016	540,000	27,800	567,800
2017	550,000	16,900	566,900
2018	570,000	5,700	575,700
Total	\$ 3,185,000	\$ 196,250	\$ 3,381,250

8. **LONG-TERM DEBT - continued**

Special Assessment Bonds - continued

	BALANCE, BEGINNING OF YEAR	ADDITIONS	REDUCTIONS	BALANCE, END OF YEAR	DUE WITHIN ONE YEAR
Governmental activities:					
General Obligations Bonds	\$ 3,735,000	\$ 3,185,000	\$ (3,735,000)	\$ 3,185,000	\$ 495,000
Tax Increment					
Revenue Bonds	55,425,000	-	(1,230,000)	54,195,000	-
Issuance discounts	(589,112)	-	49,093	(540,019)	-
Issuance premiums	-	115,331	(16,018)	99,313	-
Postretirement Benefits	508,991	-	(23,432)	485,559	-
Total	<u>\$ 59,079,879</u>	<u>\$ 3,300,331</u>	<u>\$ (4,955,357)</u>	<u>\$ 57,424,853</u>	<u>\$ 495,000</u>

9. **POST-RETIREMENT BENEFITS**

As a benefit to employees who have served the City for an extended period of time, the City provides certain benefits upon retirement. Upon retirement full time employees who have been employed by the City for 20 years or more are entitled to receive three months of salary. At December 31, 2012, there were 16 employees eligible to receive benefits. The City has accrued this liability in the government-wide statements as a noncurrent liability. The balance at December 31, 2012 amounted to \$485,559. The amount recorded as expense for 2012 was \$23,432. No benefits were paid during 2012.

10. **RETIREMENT PLAN**

The City of Manchester, Missouri Profit Sharing Plan and Trust (a single-employer defined contribution retirement plan currently administered by ICMA Retirement Corp.) became effective October 1, 1990 upon the passage of an ordinance by the Board of Aldermen. The City pays for the full cost of the Plan by contributing up to 5% of eligible participating employees' annual compensation. All employees are eligible to participate in the Plan when they have been credited with at least 1,000 hours of service during the period of 6 consecutive months measured from the anniversary date of their employment.

Employees vest at a graduated rate over a five year period. The City contributed \$183,163 to the Plan during 2012. The City's payroll for employees covered by the Plan for the year ended December 31, 2012 was \$3,663,260 or 90.5% of the City's total payroll of \$4,049,444.

11. **DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City makes no contribution to the Plan.

11. **DEFERRED COMPENSATION PLAN - continued**

ICMA Retirement Corporation administers the City's Deferred Compensation Plan. The City does not have significant administrative involvement in the Plan. With the adoption of Governmental Accounting Standards Board (GASB) No. 32, "*Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*" the City's Deferred Compensation Plan is not included in the general purpose financial statements. The City's Plan does not meet the criteria for reporting the Deferred Compensation Plan in a fiduciary fund.

12. **RISK MANAGEMENT**

The City is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City is a member of the St. Louis Area Insurance Trust (SLAIT), a non-for-profit, self insurance risk pool, formed by various St. Louis County municipalities.

In order to operate as a group self-insurer of workers' compensation, SLAIT was formed in August 1986. In addition to insurance protection, the program provides risk management services with emphasis on loss control, claims administration, and management information services. SLAIT is fully funded by its member participants and employs an outside service company to process all claims.

Coverage is provided by the trust for general and auto liability subject to a \$500 deductible per occurrence for third party property damage and for law enforcement liability subject to a \$2,500 deductible per occurrence. Any damage to city property carries a \$5,000 deductible. This trust also employs an outside service company to process all claims.

The trusts require an annual premium payment by members to cover estimated claims payable and reserves for claims. The members of the trust have no legal interest in assets, liabilities, or fund balances of the insurance trust. However, the City is contingently liable to fund its pro rata share of any deficit incurred by the trusts should the trusts cease operation at some future date. The City's 2012 premium payments to the trusts totaled \$200,134.

The City also purchases commercial insurance to cover risks related to building and other City property, crimes, business, travel, public official liability, earthquakes, and employee blanket bonds. Settled claims resulting from these risks have not exceeded coverage in any of the past three years.

13. **COMMITMENTS**

In 2009, the City signed a contract for single-family residential household trash, recycle and yard waste collection service. The contract is for 5 years and increases for each subsequent year are equal to the consumer price index. During the year ended December 31, 2012 expenditures for waste removal totaled \$1,404,518.

14. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through May 16, 2013, the date the financial statements were available to be issued.

15. IMPLEMENTATION OF GASB STATEMENT NOS. 63 AND 65

In 2012, the District implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB 65, *Items Previously Reported as Assets and Liabilities*. These statements required changes in account captions in the statement of net position. In addition, costs associated with the issuances of debt are now expensed when incurred. Previously these costs were capitalized and amortized over the life of the related debt. Net position as of January 1, 2012, has been adjusted for the effect of retroactive application of the new standard, resulting in a decrease in beginning net position of \$1,053,381.

16. PRIOR PERIOD ADJUSTMENT

Fund balance and net position as of January 1, 2012 have been reduced by \$19,745 to correct an error made in 2011 by including in revenue grant funds of \$19,745 that should have been a payable to another city for their portion of the proceeds. The 2011 financial statements have been retroactively restated for the change, which resulted in a decrease in the change in net position and fund balance of \$19,745.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MANCHESTER, MISSOURI
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
OPERATING REVENUE				
Taxes	\$ 7,563,000	\$ 7,563,000	\$ 6,831,499	\$ (731,501)
Licenses and permits	225,000	225,000	233,848	8,848
Fines and forfeitures	350,000	350,000	460,612	110,612
Investment income	26,500	26,500	42,136	15,636
Charges for service	400,000	400,000	397,517	(2,483)
Miscellaneous	184,000	184,000	207,187	23,187
TOTAL OPERATING REVENUE	8,748,500	8,748,500	8,172,799	(575,701)
EXPENDITURES				
Current:				
General government	1,085,109	1,146,019	1,083,321	62,698
Police department	3,526,622	3,526,622	3,136,366	390,256
Public works	2,972,286	2,972,286	2,743,868	228,418
Community development	267,159	267,159	251,639	15,520
Aquatic center	343,733	343,733	343,207	526
Recreation	719,670	719,670	641,038	78,632
Legal department and municipal court	280,467	330,467	344,378	(13,911)
Capital outlay	-	-	32,583	(32,583)
TOTAL EXPENDITURES	9,195,046	9,305,956	8,576,400	729,556
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(446,546)	(557,456)	(403,601)	153,855
OTHER FINANCING SOURCES (USES)				
Operating transfer in (out)	(270,100)	(270,100)	(274,328)	(4,228)
CHANGE IN FUND BALANCE	(716,646)	(827,556)	(677,929)	\$ 149,627
FUND BALANCES - BEGINNING OF YEAR	2,507,481	2,507,481	2,507,481	
FUND BALANCES - END OF YEAR	\$ 1,790,835	\$ 1,679,925	\$ 1,829,552	

See note to required supplementary information.

CITY OF MANCHESTER, MISSOURI
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
PARKS AND STORM WATER PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
OPERATING REVENUE				
Taxes	\$ 1,476,203	\$ 1,476,203	\$ 1,420,732	\$ (55,471)
Miscellaneous	15,000	15,000	-	(15,000)
TOTAL OPERATING REVENUE	<u>1,491,203</u>	<u>1,491,203</u>	<u>1,420,732</u>	<u>(70,471)</u>
EXPENDITURES				
Capital outlay	824,260	836,260	699,157	137,103
Debt service:				
Principal, interest and fiscal charges	-	-	-	-
TOTAL EXPENDITURES	<u>824,260</u>	<u>836,260</u>	<u>699,157</u>	<u>137,103</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	666,943	654,943	721,575	<u>\$ 66,632</u>
FUND BALANCES - BEGINNING OF YEAR	<u>523,567</u>	<u>523,567</u>	<u>523,567</u>	
FUND BALANCES - END OF YEAR	<u>\$ 523,567</u>	<u>\$ 523,567</u>	<u>\$ 523,567</u>	

See note to required supplementary information.

CITY OF MANCHESTER, MISSOURI
REQUIRED SUPPLEMENTARY INFORMATION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

1. BUDGETARY INFORMATION

The City prepares its budget on a basis consistent with generally accepted accounting principles. The budgetary process is detailed in footnote 2 of the notes to the financial statements.

SUPPLEMENTARY INFORMATION

CITY OF MANCHESTER, MISSOURI
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	Special Revenue Funds			
	Homecoming Fund	Sewer Fund	HRC Fund	Total
ASSETS AND OTHER DEBITS				
Cash and investments	\$ 42,398	\$ 540,921	\$ 475	\$ 583,794
Other taxes receivable	-	35,897	-	35,897
Due (to) from other funds	-	-	(42,872)	(42,872)
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 42,398</u>	<u>\$ 576,818</u>	<u>\$ (42,397)</u>	<u>\$ 576,819</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
FUND BALANCES				
Fund balances:				
Restricted:				
Parks and recreation	42,398	-	(42,397)	1
Sewer improvements	-	576,818	-	576,818
TOTAL FUND BALANCES	<u>42,398</u>	<u>576,818</u>	<u>(42,397)</u>	<u>576,819</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 42,398</u>	<u>\$ 576,818</u>	<u>\$ (42,397)</u>	<u>\$ 576,819</u>

See Independent Auditors' Report.

CITY OF MANCHESTER, MISSOURI

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Special Revenue Funds</u>			
	<u>Homcoming Fund</u>	<u>Sewer Fund</u>	<u>HRC Fund</u>	<u>Total</u>
REVENUE				
Taxes	\$ -	\$ 166,791	\$ -	\$ 166,791
Charges for service	-	19,650	-	19,650
Miscellaneous	26,529	-	945	27,474
TOTAL REVENUE	<u>26,529</u>	<u>186,441</u>	<u>945</u>	<u>213,915</u>
EXPENDITURES				
Current:				
Public works	-	40,209	-	40,209
Recreation	33,620	-	-	33,620
Capital outlay	-	153,226	470	153,696
TOTAL EXPENDITURES	<u>33,620</u>	<u>193,435</u>	<u>470</u>	<u>227,525</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(7,091)	(6,994)	475	(13,610)
FUND BALANCES - BEGINNING OF YEAR	<u>49,489</u>	<u>583,812</u>	<u>(42,872)</u>	<u>590,429</u>
FUND BALANCES - END OF YEAR	<u>\$ 42,398</u>	<u>\$ 576,818</u>	<u>\$ (42,397)</u>	<u>\$ 576,819</u>

See Independent Auditors' Report.

CITY OF MANCHESTER, MISSOURI
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
OPERATING REVENUE				
Taxes	\$ 1,500,000	\$ 1,500,000	\$ 1,215,392	\$ (284,608)
Miscellaneous	25,000	25,000	224,601	199,601
TOTAL OPERATING REVENUE	<u>1,525,000</u>	<u>1,525,000</u>	<u>1,439,993</u>	<u>(85,007)</u>
EXPENDITURES				
Capital outlay	1,123,147	1,123,147	1,077,233	45,914
TOTAL EXPENDITURES	<u>1,123,147</u>	<u>1,123,147</u>	<u>1,077,233</u>	<u>45,914</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>401,853</u>	<u>401,853</u>	<u>362,760</u>	<u>\$ (39,093)</u>
FUND BALANCES - BEGINNING OF YEAR AS PREVIOUSLY STATED	166,787	166,787	166,787	
Prior period adjustment	<u>(19,745)</u>	<u>(19,745)</u>	<u>(19,745)</u>	
FUND BALANCES - BEGINNING OF YEAR, AS RESTATED	<u>147,042</u>	<u>147,042</u>	<u>147,042</u>	
FUND BALANCES - END OF YEAR	<u>\$ 548,895</u>	<u>\$ 548,895</u>	<u>\$ 509,802</u>	

See Independent Auditors' Report.

CITY OF MANCHESTER, MISSOURI
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
OPERATING REVENUE				
Taxes	\$ 554,000	\$ 554,000	\$ 276,106	\$ (277,894)
Investment income	-	-	187	187
TOTAL REVENUES	<u>554,000</u>	<u>554,000</u>	<u>276,293</u>	<u>(277,707)</u>
EXPENDITURES				
Debt service:				
Bond issue costs	-	-	64,173	(64,173)
Principal, interest and fiscal charges	477,833	477,833	107,211	370,622
TOTAL EXPENDITURES	<u>477,833</u>	<u>477,833</u>	<u>171,384</u>	<u>306,449</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>76,167</u>	<u>76,167</u>	<u>104,909</u>	<u>28,742</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issuance	-	-	3,185,000	3,185,000
Premium on bonds issued	-	-	115,331	115,331
Payment to refunded bond escrow agent	-	-	(3,735,000)	(3,735,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(434,669)</u>	<u>(434,669)</u>
CHANGE IN FUND BALANCE	<u>76,167</u>	<u>76,167</u>	<u>(329,760)</u>	<u>\$ (405,927)</u>
FUND BALANCES - BEGINNING OF YEAR	<u>963,382</u>	<u>963,382</u>	<u>963,382</u>	
FUND BALANCES - END OF YEAR	<u>\$ 1,039,549</u>	<u>\$ 1,039,549</u>	<u>\$ 633,622</u>	

See Independent Auditors' Report.

CITY OF MANCHESTER, MISSOURI
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - TIF FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
OPERATING REVENUE				
Taxes	\$ 4,351,100	\$ 4,351,100	\$ 5,194,094	\$ 842,994
Investment income	-	-	109,200	109,200
Miscellaneous	-	-	21	-
TOTAL OPERATING REVENUE	<u>4,351,100</u>	<u>4,351,100</u>	<u>5,303,315</u>	<u>952,194</u>
EXPENDITURES				
General government	268,500	268,500	307,044	(38,544)
Debt service	4,352,700	4,352,700	4,822,765	(470,065)
TOTAL EXPENDITURES	<u>4,621,200</u>	<u>4,621,200</u>	<u>5,129,809</u>	<u>(470,065)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(270,100)	(270,100)	173,506	482,129
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	270,100	270,100	274,328	4,228
CHANGE IN FUND BALANCE	-	-	447,834	<u>\$ 447,834</u>
FUND BALANCES - BEGINNING OF YEAR	<u>9,540,958</u>	<u>9,540,958</u>	<u>9,540,958</u>	
FUND BALANCES - END OF YEAR	<u>\$ 9,540,958</u>	<u>\$ 9,540,958</u>	<u>\$ 9,988,792</u>	

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CITY OF MANCHESTER, MISSOURI
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - HOMECOMING FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
OPERATING REVENUE				
Miscellaneous	<u>\$ 30,500</u>	<u>\$ 30,500</u>	<u>\$ 26,529</u>	<u>\$ (3,971)</u>
EXPENDITURES				
Current:				
Recreation	<u>37,738</u>	<u>37,738</u>	<u>33,620</u>	<u>4,118</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,238)</u>	<u>(7,238)</u>	<u>(7,091)</u>	<u>\$ 147</u>
FUND BALANCES - BEGINNING OF YEAR	<u>49,489</u>	<u>49,489</u>	<u>49,489</u>	
FUND BALANCES - END OF YEAR	<u>\$ 42,251</u>	<u>\$ 42,251</u>	<u>\$ 42,398</u>	

See Independent Auditors' Report.

CITY OF MANCHESTER, MISSOURI
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
OPERATING REVENUE				
Taxes	\$ 167,000	\$ 167,000	\$ 166,791	\$ (209)
Charges for service	20,000	20,000	19,650	(350)
TOTAL OPERATING REVENUE	<u>187,000</u>	<u>187,000</u>	<u>186,441</u>	<u>(559)</u>
EXPENDITURES				
Current:				
Public works	59,800	59,800	40,209	19,591
Capital outlay	139,000	139,000	153,226	(14,226)
TOTAL EXPENDITURES	<u>198,800</u>	<u>198,800</u>	<u>193,435</u>	<u>5,365</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(11,800)	(11,800)	(6,994)	<u>\$ 4,806</u>
FUND BALANCES - BEGINNING OF YEAR	<u>583,812</u>	<u>583,812</u>	<u>583,812</u>	
FUND BALANCES - END OF YEAR	<u>\$ 572,012</u>	<u>\$ 572,012</u>	<u>\$ 576,818</u>	

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